

US - Azerbaijani Relations

**remarks by
Ambassador Ross Wilson**

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It's a pleasure to be here. I've been in the United States mostly on leave since about the 28 or 29th of December. I'm going back tomorrow night. So this is a good way to start to go back to my country of assignment. I see a lot of familiar faces that I've known and associate with my time in Azerbaijan. While I've been here I've been doing some other public speaking. On Thursday in New Orleans Ambassador Mann, our ambassador to Kazakhstan and I participated in a program to try to promote trade and investment opportunities for oil and gas services companies in the Caspian, and particularly for companies that are smaller and have not been active. I think that was very successful, and we appreciated the USACC's help in arranging that. I spoke yesterday in Minneapolis, my hometown. I was quite impressed that about a 125 people came out on a very snowy night, the temperature was around 0, to hear an ambassador to a country that for many Minnesotans must be a strange little place very far away with a kind of a funny name. Evidently a lot of people wanted to come and find out what it is and what it's all about. Today I'll try to describe what's taken place over the course of the last year.

2002 was a very interesting year in US – Azerbaijan relations. It started with President Bush's waiving of section 907 on January 25 that reflected the cooperation that had developed between our two countries, and reflected over several years on many different issues. It also reflected on the events of September 11, 2001 and the specific cooperation, assistance and support that Azerbaijan provided to the United States in dealing with those who carried out the attacks against the United States. It really has enabled us to open up a whole lot of new and very interesting avenues of work and cooperation. And I'll cite a few. Indeed, I was surprised to find people in Baku who have been working in this area but really did not have much of a sense of the overall picture.

We have initiated security assistance to the government of Azerbaijan. \$4.4 million was allocated for FMF (Foreign Military Financing) and IMET (International Military Education and Training), funds for us to use with the Ministry of Defense and other military type institutions to start to work in terms of training, in terms of certain amount of equipping, in terms of military modernization in addressing specific areas that we agreed upon with them. We held in March of last year the first Bilateral Defense Consultations (BDC) that the Department of Defense chairs and agreed in those talks on four main areas of work in the security field: maritime security, obviously of importance to those who work in offshore oil and gas resources; air space management and air field modernization and standardization to NATO standards; peacekeeping, that is support of Azerbaijan's peacekeeping battalion; and English language education for Azeri military officers, which is a sort of prerequisite before you can do all those other things in peacekeeping, airfields and maritime security. We need

people we can talk to. That's a big need in all countries of former Soviet Union, and it was a big need particularly in the Azeri military.

We expect to get a comparable level of funding in FY03 whenever Congress finishes its work on the budget, and I personally expect a comparable amount of money in FY04, although decisions on this are obviously a long way from being made yet. So we could well be in a position where we have in a 3 year window of time \$12 million, \$15 million, may be \$17 million to use with the Azeri military working in the areas that I described and others where we agree. To just stick with security, the Azerbaijani peacekeeping contingent deployed troops to Afghanistan as part of the Turkish contingent in support of ISAF, the international peacekeeping force in Afghanistan. I think that was very important to us, very important to me, because it's good experience in international peacekeeping for these relatively new, relatively inexperienced to peacekeeping units, even though some members had operated in Kosovo. It's also important politically to us to get another supportive, moderate Muslim country engaged with us, with Turkey, with others in Afghanistan.

A second area that is new for us is economic assistance. One of the main things we could not do under section 907 besides security assistance was economic assistance to the government of Azerbaijan. The pattern for those of you who follow our assistance programs is the pattern that is in other countries of the former Soviet Union: we don't provide money, but we do provide technical assistance, and where it's necessary to do so, we provide equipment. The dollar amount I believe is approximately \$7-8 million, out of FY02 money to work in whole variety of areas.

The Treasury Department has sent a budget adviser to work in the Ministry of Finance in preparation of the 2003 budget and administering the 2003 budget. The US Agency of International Development together with the World Bank is funding a project to modernize the Azerbaijani Treasury and computerize the Azeri Treasury. What that means is that government expenditures instead of being carried out and recorded by whatever arcane method exists now will be online all over the country. And I think that 83 or 85 different regional offices of the Ministry of Finance will be linked together. The Ministry of Finance's authority all over the all government expenditures has been strengthened, and this will be a way to help Azeri economic managers to better manage their money. It will have the added benefit of providing transparency in the expenditure of government funds, which is good for self-evident reasons.

AID is also working on a project to strengthen bank supervision. Anybody that followed Azerbaijan knows that banking system is rather weak for variety of different reasons. The government has taken some steps in conjunction with the World Bank in this area. I think this particular is to strengthen the National Bank's capabilities in supervising the commercial and private banks that exist there, and we hope it will contribute to a strong and more effective financial sector and also have the added benefit in proving transparency in financial flows. This will strengthen the ability of the government to deal with and prevent financial flows, at least through the financial system, to terrorist groups or other people that we might be concerned about, clearly part of a worldwide effort that the United States is engaged in.

We are providing an advising capability to the Ministry of Economic Development on trade issues and issues related to Azerbaijan's accession to the WTO. This is a project that has not actually gotten airborne yet at least not at the time that I left. The Ministry of Economic Development is selecting among several different private consulting groups who will actually do the work in this field. For me this is a way of supporting an important economic reformer in

the form of Minister of Economic Development Farhad Aliyev, and it also is a way of helping Azerbaijan to start to address the very complicated issues that are involved in getting into the WTO.

We are also working on a project that is nearing liftoff of technical assistance in support of domestic energy market reform. Most of the other countries of the former Soviet Union have done this. We now have a fair amount of experience in working with similar economies. Azerbaijan is endowed with such substantial energy resources, but makes exceptionally poor use of those resources: few people pay for electricity, enterprises don't pay for the resources that they use, etc. There is essentially no safety net to help those who might not be able to afford their utility payments. Obviously that doesn't matter if you are not charging people, but if you are going to move to a system where people pay for what they use and by that mechanism support the development of private economy especially in the regions where energy supplies are particularly uneven you need a safety net, you need a regulatory structure. Bob Ichord, one of our friends, who has worked on these issues in other countries, is at the center of this effort, which gives me confidence that we are going to be addressing the right issues.

There are couple other things in the technical assistance to the government or economics basket, but those are some of the main ones. These are things we could never do before. For me it's a way to help Azerbaijan to better manage its economy, to deal with issues of transparency and corruption, and to establish, to put in place, the right kinds of economic policies that will facilitate economic growth and development outside of the oil sector which is the one big area in the country that is still seriously ailing.

A third basket of things that we are doing and could not do before is assistance to the law enforcement community. It's sort of similar to what we do with military but it's obviously quite a bit different. In my absence from Baku, Nancy McEldowney, the deputy chief of mission, signed a memorandum of cooperation with the Minister of Foreign Affairs to begin detailed assistance and cooperation with several law enforcement agencies.

If I can remember the specific projects, one is to set up a computerized database for the Ministry of Internal Affairs. It presently has no computerized databases. It has shoe boxes where they keep files and records, but there is really nothing there that enables people to sort of deal in a 21st century way with information. This is a big and important project.

The second one is a modern forensics laboratory, which is not just a lab and equipment and staff like that, but the training to go along with it. We found in the wake of the tragic murder of the representative of IRI in Azerbaijan a couple years ago that the FBI when they came out to provide some assistance found the Azeris had nothing by way of modern forensics capabilities. This hopefully will try to get at that.

And then the third project is a broader program of assistance in curriculum development and so forth for the police academy to try to help to modernize the Azeri police forces, train them in modern techniques, train them in how police operate in a free society and really provide some tangible assistance that we certainly hope will be important.

The fourth element that we are working on in law enforcement area is drug trafficking. The drug enforcement agency want to set up and will be setting up some specific cooperative

activities with the resources behind them with various entities in Azerbaijan that work on these issues.

All of our previously existing assistance activity more or less remains as it was. We continue to transition our longstanding humanitarian assistance away from feeding and sustenance activities, although we still do some of that, in favor of economic development activities that will help refugees and IDPs, the most affected populations, to get the tools to support themselves and to build a better future for themselves and for their children.

Just to shift a little bit, the government of Azerbaijan has been extremely supportive of the United States in the fight against international terrorism. President Aliyev met with me the day after September 11 to offer all types of assistance -- to offer Azeri air space, to offer Azeri air fields and other military bases, to offer whatever other capabilities we might feel the need to make use of. I think there have been something like 1,500 or 1,700 overflights by US military aircraft operating in support of Operation Enduring Freedom toward Afghanistan or toward other points in Central Asia. Obviously it doesn't take a lot for the government to make that possible but unlike some other governments in a region, this has all been seamless, it's been smooth and it's been very important to us.

Azerbaijan has extradited, I believe, around 30 terrorists, to other countries. These are individuals that the authorities detained either when they entered the country or when they were found in the country, in some cases with our assistance in terms of providing information to track these people down. That's very important, because they have gotten their hands on a number of very interesting people and very dangerous people, and that is contributing to the fight against international terrorism. The government has taken some steps to implement the provisions of the UN Security Council resolution that talks in particular about terrorism financing. The government has issued the necessary instructions to the banks, they have frozen the account of one organization, Benevolence International, which also existed here and which has been a target of US law enforcement agencies. Because the banking system is so weak the expectation is that most terrorists, not that there are a lot who might want to make use of the Azeri financial system probably wouldn't, they might want to go some other way. The government has done the necessary in that area as well, and we appreciate it.

A big development in 2002 has been our progress in oil and gas and in particular around oil. The groundbreaking ceremony in September for BTC was a big step forward. A few of us in the room who were involved in BTC diplomacy in past years know how big a step forward that was for us. In 1997 when I traveled to Baku with Secretary Peña, it was hard to argue with the proposition that BTC was a bit of a pipe dream. It is not a pipe dream anymore. The companies are now in the process of spending over a \$1 billion of their own money to acquire the pipe and the pumping stations and all the equipment that goes along with this. There has been some work at the onshore terminal that is going on since before September, but actual work on the pipeline is supposed to get on in March or April. This project is going to happen, and it will be a big-big-big contribution to Azerbaijan's success as an independent market economy, to its success as an important energy producing country. And I think it will be a catalyst for development generally of Caspian energy resources, which we all know, is an extremely important new and additional source of non-OPEC oil for the international energy market.

One big part of our agenda has unfortunately not made a whole lot of headway in 2002, and that's peace. We have continued to work with Russian and French co-chairs of the Minsk Group to try to find ways to bridge gaps in the positions of Azerbaijan and Armenia.

I went to Armenia in April of last year and Ambassador John Ordway, who is my counterpart in Yerevan, came to Baku, I think in late October. It was an effort on our part to try to do something different and in that way to contribute to some progress and also to get personal feel for what people think and what people say. We all read each others' cable but it's not the same as going and seeing and talking to people. I know it was helpful for me to sort of take a personal measure of President Kocharian, to take a personal measure of what the average Armenian, thinks to the extent that somebody like me meets the average Armenian. I know that Ambassador Ordway found it an eye opening experience to hear first hand in very direct terms from a wide range of Azeris in parliament, government, and another sectors of society their views on the conflict.

We thought that we had a window opportunity in 2002 to make some progress. As it turned out it was impossible to make progress. 2003 it will be a difficult year I think for the Nagorno-Karabakh conflict strictly for domestic reasons in each country: Armenia has a presidential election in few weeks, in February, and parliamentary elections later in the spring, in May, and Azerbaijan has its own presidential election in October. This is not going to be a time when there is likely going to be a breakthrough, and I think the activity of the Minsk co-chairs over the next several weeks and months will be to try to lay some foundation that we can build on hopefully right away after the Azerbaijan election in October and see if we can get this moving.

The one thing I would add that came through very clearly in my meetings in Armenia and in Ambassador Ordway's meetings in Baku is that both presidents still put a very high priority on resolving this conflict, on resolving it peacefully and on sticking to the ceasefire. Those are three important things that give me hope that we will have some success.

It is hard to predict what may come along in 2003. I've already referred to the presidential election that will take place in October. We, the US and other interested Western embassies and the OSCE, as well as the Council of Europe, have been working over the course of the last several months with government authorities on a revised election code that replaces several different laws that govern the conduct of elections. I think we have had a good conversation, the western community with Azerbaijan, that has produced some good changes in the draft code. There's been a less successful effort to engender conversation between the government and the political opposition in Azerbaijan. We are still going at that. It's important that the broadest section of society have an opportunity to provide input on this electoral code and that people regard it as something that provides a framework in which Azerbaijan can have a free and fair election that meets international standards which is the President's goal, and is the government's goal, and is certainly our goal. President Aliyev told me when I met with him on the 27th, the day before I left, repeating what he said a number of times before, that he intends to run for election. I expect that he will follow through on that. And we will spend a lot of 2003 watching how this plays out and trying to do what we can to ensure that this election represents an improvement and adds to the democratization of Azerbaijan, adds to long term stability in that country.

We hope really to get going on this energy reform on technical assistance that I referred to. It's extremely important because it's a key element in supporting what the IMF and the World Bank are working on in Azerbaijan which we very much support. We are trying to get in place more of the right kinds of economic policies to promote the development of the non-oil sector in the economy. To refer to the effort Seymour referred to, there will be an investment

conference that the Ministry of Economic Development will have in May 7 to 9. I will be honest and say here that I had some reservations about the timing of this effort. I wanted to be sure, and several of my western colleagues wanted to be sure, that Azerbaijan had a good story to tell in terms of policy steps that it has taken that will lead to a productive and useful conference that will help Azerbaijan in its economic development efforts. The President issued some important decrees in September, and I think we will see some of the implementing steps in the first part of this year. These are decrees to reduce licensing requirements and reduce regulatory requirements. In American parlance, to try to get the government out of the way of businessmen who are trying to make money and help their country but also try to make money and develop their businesses. As I say these decrees are not yet implemented. But discussions I had in December were basically that the implementation measures should be coming out early in the year and hopefully will be one of the building blocks that will contribute to a successful investment conference later in the year.

There are lots of other things I had in my notes from Minneapolis but may be that's enough by way of introduction. Let me respond to questions.

Questions and answers

Q: - BTC pipeline

A: - The groundbreaking took place in September. Work actually gets going in March and April to lay pipe and so forth. The cost is approximately \$2.9 billion. The companies are putting up over \$1 billion of their own money and equity to get this project started, and we and they and the Azeris will be working in the first part of 2003 to line up commercial financing to take care of the balance of that. This is a project that is going to happen and will be a big deal. On the gas side, the Shah Deniz, is a little bit further behind. Sanctioning of Shah Deniz is scheduled to take place in February. That is BP's target. We certainly hope that that will be on track. There were discussions with the President and with BP just before I left. We will take it up again when I get back to Baku, how we can accelerate work on that project.

Q: - Mr. Ambassador, any hope on participation of Kazakh oil for trans-Caspian pipeline and participation in BTC?

A: - I think there is a lot of hope. I think so for one very concrete, practical reason and for one political reason. The practical reason is east Caspian producers of either actual or potential oil in Kazakhstan own 15% of the BTC company. They are going to use it to export Kazakh oil since they have invested that money. So that is a very practical statement by the companies that have the money and either have or will have oil that they will need and expect to be able to use BTC to export some of their volume. As for the political factor, the Azeri government and Kazakhstan have now started concrete, detailed discussions of legal, regulatory, practical, engineering and other issues that they need to work through to most effectively put Kazakh oil into the East-West system through BTC. A high level delegation from Kazakhstan was in Baku in late November, I think, and Ambassador Mann hosted talks in London also with Kazakhs and Azeris to start to work through the details. There is agreement to meet again in the first part of year, February-March, to continue these discussions. There are a number of complicated issues to work through, not least the quality issues.

Q: - Could you address the process of privatization both of state enterprises and of state owned interest and joint ventures in the non-energy sector and the energy sector or either one?

A: - The short way to characterize it is fitful. Azerbaijan carried out one main phase of privatization in the mid 1990's that accomplished a fair bit in getting particularly small entities out of state hands. Privatization of large enterprises is a lot further behind. The Government has identified 450 entities for privatization in the second phase that was announced over a year ago. But there is work that needs to take place to prepare these entities for privatization to develop information about what they are, what are their opportunities, what are their assets, what is their businesses. One area that the government has stated a commitment to privatize is communications. That I believe also is a rather longstanding commitment that has yet to be implemented.

Q: - In civil societies here the work that we and other donors are involved in is expected to be very much affected by a new law regarding the registration of non-profits. We were very pleased this spring and summer when we discussed this issue with other non-profits, we felt had a good engagement with the government of Azerbaijan and actually with an effort the law was not put into effect. Was it signed? Are you aware of that? Do you have any comment, advice for us, as we now begin engagement with the government again to see if we could possibly influence in the development of this legislation.

A: - To refer to last year's incident, I think there was a case of successful cooperation by the foreign NGO community, the domestic NGO community and interested foreign embassies and governments to dissuade the Azeri government from taking a step whose implications would have been very political and negative for the development of a free society in Azerbaijan. The government took the right steps, and we were pleased about it. The case now is a little more complicated. The foreign NGO community has been not of one mind about this issue. My position has been we will follow and support what the foreign and domestic NGO communities want but they have very different and divergent views.

The reality is that the government needs to collect taxes. In the part of our discussion with the government of Azerbaijan about the economic reform, we talked about tax administration. We are providing technical assistance to the Ministry of Taxation on tax administration to help them to collect revenue. Unless they start to do that they are going to continue indefinitely to be dependent on foreign donors for aid and economic and technical assistance and everything else. One of the issues is the specific rates that are charged. NGOs have not necessarily disagreed with the idea that the employer should pay taxes, but the rates have been a problem. *There may be some possibilities there. When I get back to Baku, we need to take the temperature of the community on this and see what it is that we can agree on to pursue and what might be the right avenue.* The Government was responding before. The President and others were clear on the commitment to not take steps that would unduly affect the NGO community. So I'm hopeful we might make some progress.

Q: - You mentioned the recent tender about Azerbaijan and WTO accession assistance. I've been tracking this since last year when I was there in February, I know the proposals have been submitted a long time ago. What is your best guess for the reasons for the delay in selecting a consultant, especially in light of Armenia's WTO accession?

A: - My assessment is that government is slow. There were a couple of points where the ball was in our court and we were not as fast as we might have been, and the Azeri government is not very fast either. I do not believe that it represents any change in the government's position with respect to WTO accession, or some reluctance to actually start working on this issue. I

think that one of the reasons is that a limited number of people work on this and they have been busy doing other things.

Q: - Any comment on IMF-Azerbaijan relations, especially about the oil fund money for BTC?

A: - The IMF mission was in Baku in, maybe late November and December. At the conclusion of their discussions, the IMF issued a press release in which they may have used the word suspended, with regard to Azerbaijan's IMF program. The release specifically highlighted their request to the government to enact a law to govern the operations of the State Oil Fund. The Oil Fund presently is governed by presidential decree. The IMF's objectives are twofold: one is to strengthen the legal base of the oil fund. Other funds in Azerbaijan have laws passed by parliament behind them, and so why this one should be any different? And the second to ensure that there's very clearly one budget in Azerbaijan and that there are not going to be two or three budgets. Whatever source the money may come from, whether it's tax revenues or out of the oil fund, that the expenditures are looked at as a package that will ensure against an occurrence of macroeconomic problems that occurred in Azerbaijan in the early 1990s, when money was printed and there was terrible inflation and so on. And when the government overspends, it will be easy to spend, I think there's around \$700mln that is in the fund, it will be easy to spend that. You could set off inflationary pressures and effectively devalue the manat in ways that will be very unhelpful in terms of the progress that Azerbaijan has made since 1994-1995 and restoring macroeconomic order. The IFIs and Azerbaijan continue to discuss this issue, as well as the other outstanding areas of difference between the IMF and the Government of Azerbaijan. We are supportive of that. There's a World Bank mission now in Baku that is discussing this, and I will take it up again with them when I get back. Azerbaijan has developed a cooperative relationship with the IMF. The IMF has been important in promoting economic reform and in helping the government work through the concrete issues. We want to see that continue, the government wants to see that continue and the IMF wants to see that continue. We will just keep working on this.

Q: - What is the position of the United States on the legal status of the Caspian Sea? It is very important for both the security of Azerbaijan and other littoral countries and effective use of oil revenues in order not to pursue a Nigerian way. The second question is, what role does the United States play in the forthcoming presidential election in order to make it fair and free?

A: - As for the first question, the US position is that this is a matter of the littoral states to resolve. We are not the littoral state of the Caspian. And we have not seen for ourselves a direct role in the negotiations, a mediator role. That is not what we do. We have provided assistance to at least Azerbaijan and Turkmenistan and maybe also Kazakhstan on the principals and the mechanisms that other countries have used when they have had similar problems on the seabed that needed to be delimited somehow. We have provided maps and experts. Our longstanding position is that whatever agreement that the littoral states reach, from our point of view, needs to be an agreement that facilitates the development of the resources and of the pipelines to get those resources to the international markets. Beyond that we have not done a whole lot to take a specific position except that we support the concept of a medium line, which is the principle that Russia and Kazakhstan used, it's effectively the principle that Azerbaijan and Russia used and it's the principle that Kazakhstan and Azerbaijan are using. It was used to settle affairs in the north Caspian which is all getting worked out. In the south, there are two problems, one is Iran and the other one is Turkmenistan. They have not bought on to this medium line principle. I was told that the discussions have accelerated over the course of the last couple of months and are moving in the right kind of directions. We

certainly hope that the lack of the agreement on Caspian delimitation does not unnecessarily hold up the development of resources. The AIOC partners have already committed well over \$7 billion to develop Azeri-Chirag-Guneshli. Development is marching ahead and may leave the Turkmen and the Iranians a little bit behind.

Q: - I particularly would like to ask about division of the surface of the sea.

A: - I think the work of the negotiators of the five countries at least over the last year has been to divide the problem into several elements and work first on the problem of the seabed and work on the water column and the surface a little later. I may not be as current on that, but what we've been watching and trying to be helpful where we could is this issue of delimitation of the seabed.

With respect to the elections I think we will do in 2003 what we have done, and we will continue the kinds of programs and diplomatic work with the government that we have carried out in the past. NDI, IRI and IFES are three prominent and important American NGOs that are working on political party development and on specific issues related to the conduct of elections, in particular with respect to the law. IFES has been working very hard on the terms and the terminology and getting the right provisions into this new electoral code that I referred to earlier. As I indicated also, we have tried to promote, together with OSCE, a dialogue between the opposition and the government and ruling party on issues related to the electoral code. We need to continue that. I assume this will be one of the main topics of the Embassy's work over the course of the next 8-9 months between now and October -- doing what we can to ensure that there's progress in this election, that it is a competitive election and that the results reflect the will of the Azeri people.

The World Bank has a fairly interesting study that I was briefed on a couple of months ago. The World Bank estimates that Azerbaijani GDP will triple by the end of this decade as the result of oil and gas development. That is a big, big bucks. A huge amount of money that is going to go into the oil fund and a huge amount of money that is going to go to the regular budget, or maybe to the oil fund, I don't know. Because the expenditures just out of the tax revenues, leave aside what goes to the oil fund, could produce really very difficult macroeconomic imbalances. I think the main thing to do to ensure that Azerbaijan doesn't go the way of other countries that have overly relied on their natural resource endowments to their regret years later is to work with the government and work on the government to improve the climate for private business. Azeris are perfectly good businessmen, they are sensible, they are aggressive, there's lots of talent. Azerbaijan has plenty in the way of resources, plenty of people who want to develop business. It has too many people who have had their businesses snatched away from them or who have been run out of business as a result of actions by someone in government or just by the difficulty of doing work there, the difficulty of getting permits, the difficulty of making money. If we can get the government to get out of the way a little bit more of private enterprise, Azerbaijan can be a very rich country and make a very good use of these resources, resources that give the government something to work with on roads and schools and infrastructure that the government is responsible for. Most countries of the former Soviet Union do not have those resources. This is an advantage for Azerbaijan but it could go wasted. I have spoken of this publicly in Baku: all the money that the government spends on schools, on roads and other kinds of infrastructure will be wasted and will fail to provide prosperity to the Azeri people unless there are real and effective actions taken to promote private economic development.

Q: - Could you comment on the role of the South Central Caucasus in a possible war in Iraq and especially on the discussion with the Azeri government and what has been the result of those?

A: - I can't really comment very much on this. As I think you know there have been no decisions made about going to war with Iraq, therefore not a whole lot of decisions have been made about how that might be prosecuted. I believe Azerbaijan will find ways to be supportive of the United States, as I think so will the other countries in South Caucasus. But at this point it is premature to talk about what specifically might be the role of these countries, what the United States might look for from them. Time will tell. This is something that, based on my conversations and meetings last week with Secretary Powell, Deputy Secretary Armitage, Deputy Secretary Wolfowitz and others, is going to be something to take a lot of our time in the first part of this year. But it has not quite started yet.

Q: - Have the problems in the oil sector in Kazakhstan been repeated in Azerbaijan?

A: - The difficulties, the disagreements that have developed recently in Kazakhstan are not evident in Azerbaijan. The government and the international oil companies I think are very much in sync on the terms of the PSAs. The PSAs are being honored by the authorities. Obviously there are problems occasionally, but nothing on the scale of the particular problem that TengizChevroil is having. I think it's a credit to the priority that the President Aliyev has put on development of strong oil and gas sector in Azerbaijan that this is not happened.

Q: - What would you tell American people about Azerbaijan from a personal experience?

A: - I can answer to that question with reference to what I said when I was in Minneapolis, which is that Azerbaijan is a very interesting place, it's a very complicated place. There are wonderful people there. And it is important to the United States to ensure that Azerbaijan and the other countries of the former Soviet Union succeed. For 50 years the main threat to our way of life came from that part of the world, for 70 years that part of the world was closed to American business, to American values, to Americans in some very important ways. The cold war is over. We need to both ensure that never again there will be a threat like that to the United States from that part of the world. We need to ensure that these countries succeed in providing prosperity, peace and stability for their people. If Afghanistan and the events of September 11 taught us anything it is that what might look to some Americans like small, relatively obscure countries far, far away not being a threat to us, that is not right. We can prevent those kinds of problems by ensuring that our partners and friends around the world can stand up and have strong and effective governing institutions, have economies that are providing prosperity, have political stability, in peace and cooperation with their friends and neighbors, and that's what Azerbaijanis want.

Q: - What is the status of the media freedom in Azerbaijan? The President issued a decree on the tax base. The U.S. government is trying to help Azerbaijan fight corruption, but the law never reached parliament. What is the latest development?

A: - We follow the freedom of the media closely and we discuss this issue with the government. In December 2001, I met with President Aliyev during which he publicly said that it is important to have freedom of the press. After that, he had a meeting with the press and reiterated his commitments to ensure that the government stays off the backs of the media and provides financial assistance. The government followed through on its commitment by

and large. There are a lot of good things to point to in this regard. Also a number of suits against the media were dropped. There has been a new wave of individual libel suits against Yeni Musavat [newspaper]. We have discussed them with the government and are concerned about it.

Most of what we do is done to provide concrete assistance is through Internews, which works with TV stations and media. Hopefully we will also make progress on journalistic ethics.

In my time in Baku we have not had discussions about a law on corruption. Corruption is a very large notion, and it is better to work on concrete issues that will support those in Azerbaijan who want to move away from corruption, which is what we do.

Q: - Can you discuss the maritime security program?

A: - For three years we have been providing assistance to the Azerbaijani Border Guards, the bulk of it to the Maritime Border Guards for language training, boats, engines, and training. The program is continuing.